



City of Seattle
2010 – 2012 General Government
Fiscal Update

Presented to the Seattle City Council
April 19, 2010

Overview

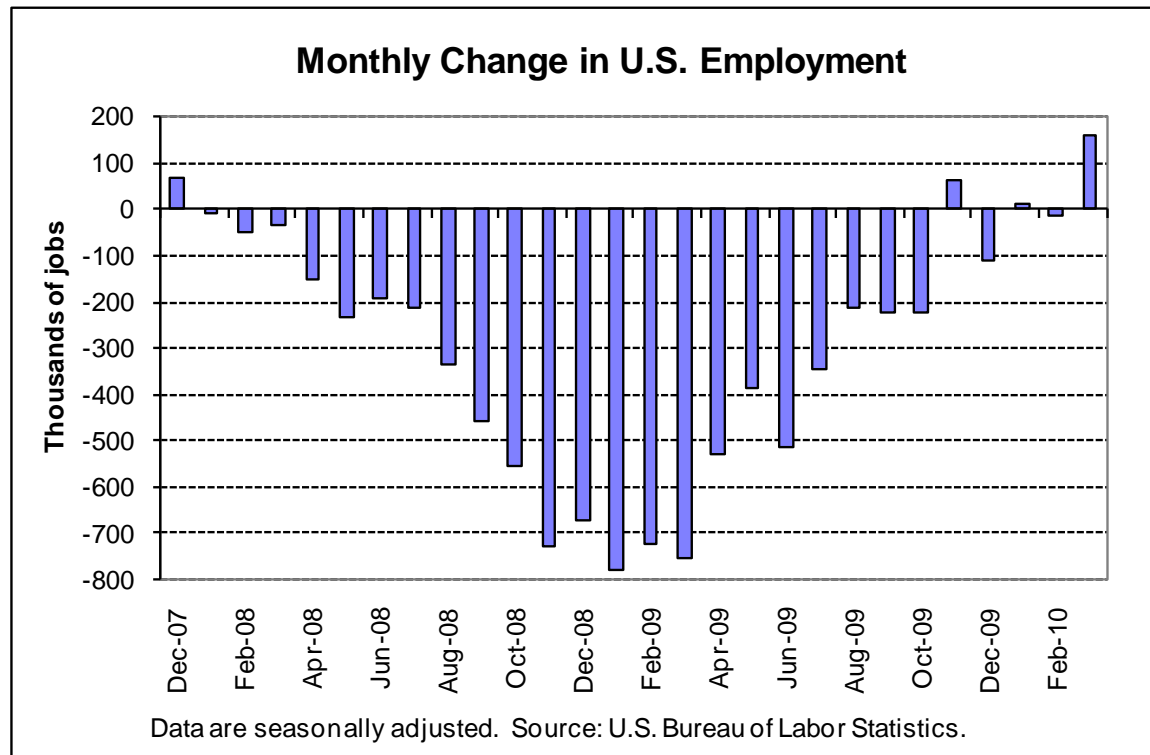
- ▶ The City of Seattle's General Fund continues to suffer from the struggling economy
- ▶ Seeing some very modest signs of improvement on the revenue side of the equation
- ▶ But, pressures on the expenditure side of the equation are exacerbating our budget forecast
 - ▶ In addition, we have a number of 'looming' budget issues which put additional pressures on the City's long-term financial outlook

Economic Forecast

- ▶ Presented by the Finance Division of the Department of Finance & Administrative Services

► Current U.S. Economic Conditions

- The 2008-09 recession was the most severe downturn since the 1930s. It is most severe in terms of:
 - Length: at least 18 months
 - Decline in GDP: 3.8% (tied with 1957-58 recession)
 - Decline in employment: 6.1% (8.4 million jobs lost)
- Household wealth declined by \$17.5 trillion (26.6%)
- Housing markets continue to struggle
 - Foreclosures, homes “underwater”
- Current recovery led by exports, business investment and federal stimulus
- Employment has finally begun to grow

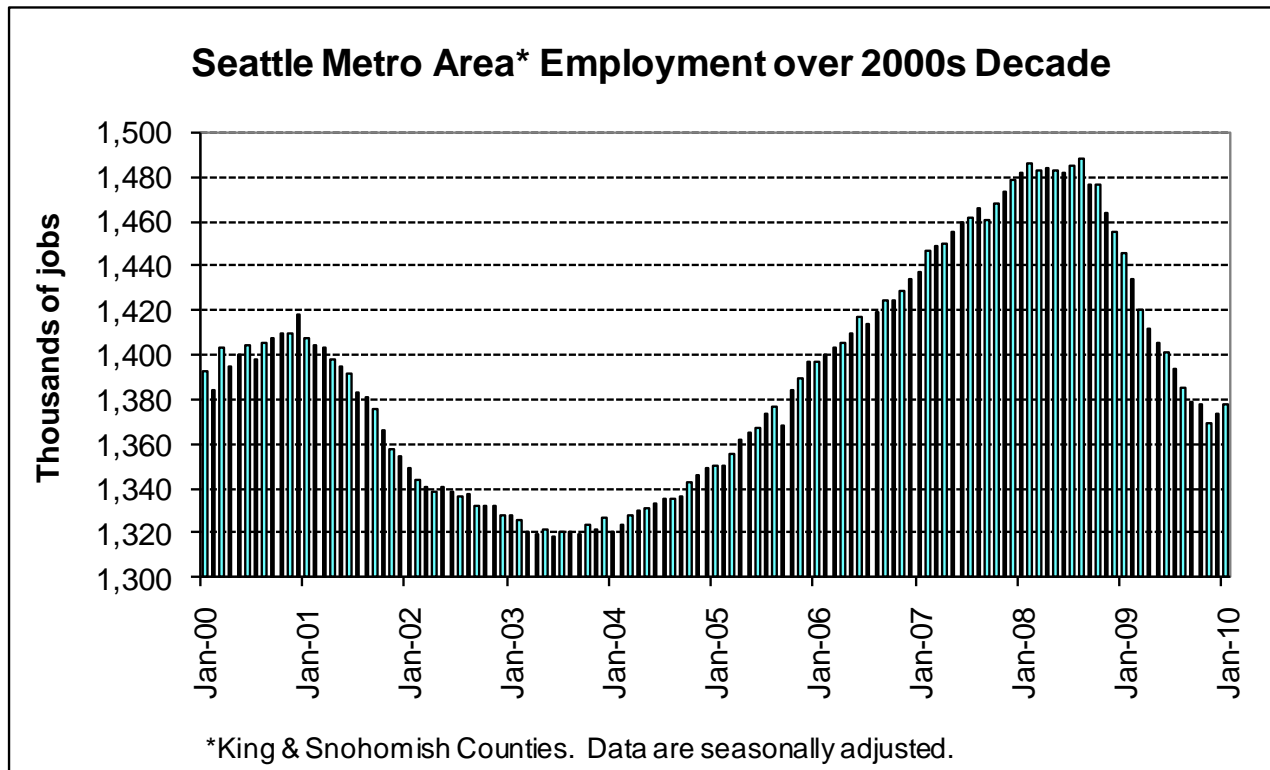


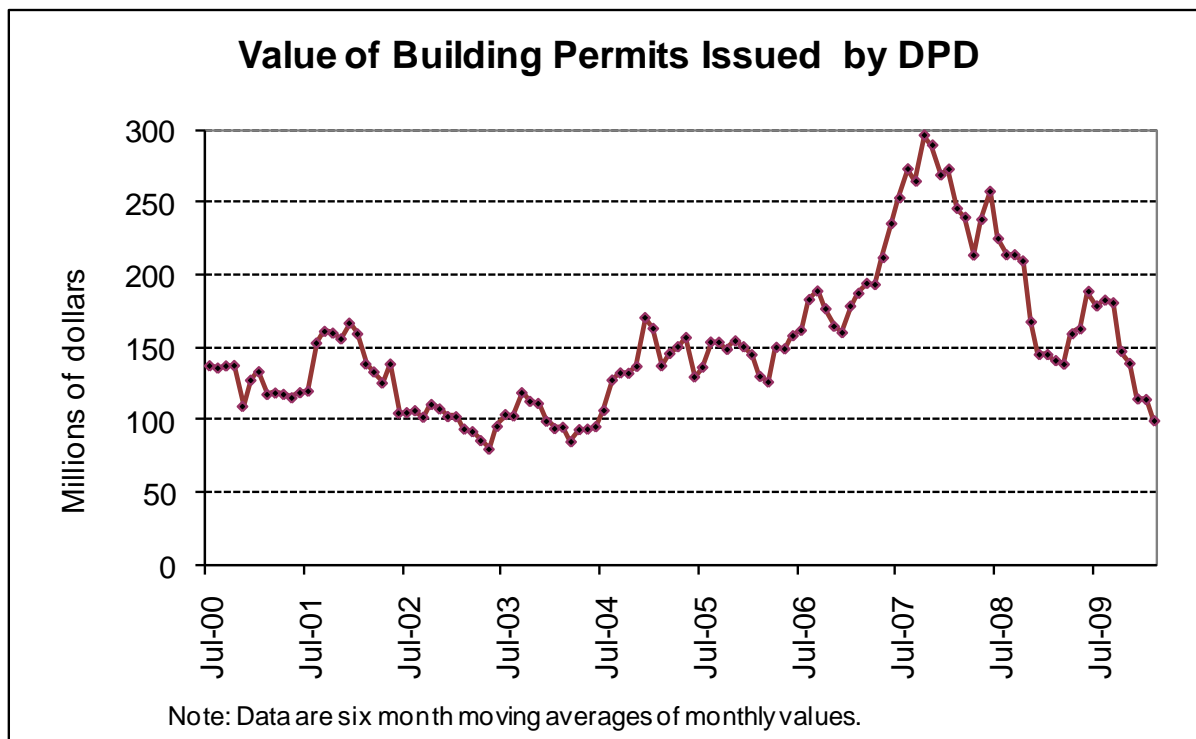
► U.S. Economic Forecast

- Recovery will be subdued by historical standards, with growth restrained by:
 - Slow recovery of employment
 - High consumer debt and loss of wealth, which will weigh on household spending
 - Housing market problems
 - Commercial real estate market has further to fall
- Forecasts have become more optimistic in recent months
 - Risk of double-dip recession has lessened
 - Global Insight: 15% chance

► **Current Puget Sound Economic Conditions**

- Employment declined during the past decade
 - From Jan 2000 – Jan 2010, Seattle metro area (King & Snohomish Co.) lost 14,600 jobs (1.0%)
 - Cause was two major recessions
- Current recession locally has been comparable to U.S.
 - Peak-to-trough loss of 119,000 jobs (8.0%)
 - Compared to 6.1% nationally
 - Construction and finance saw bigger declines here
 - Blue collar industries have been hardest hit
- Construction has been hammered by housing bubble & recession

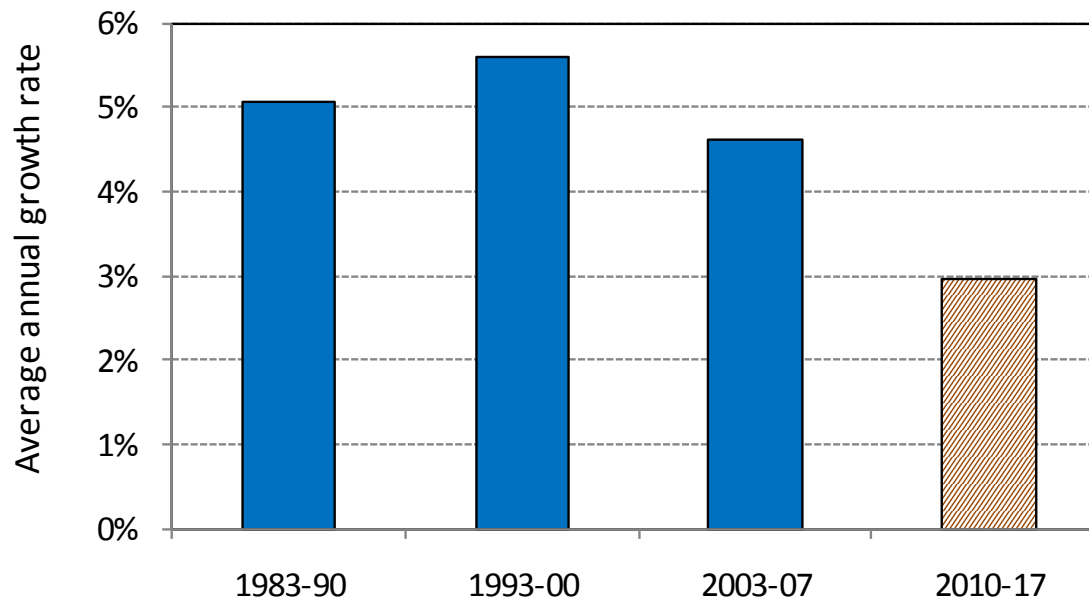




► Puget Sound Region Economic Forecast

- Forecast is similar to U.S. forecast
 - Job and income growth will be relatively weak
- State economist expects state to outperform the U.S.
 - Boeing & Microsoft survived recession reasonably well
 - Boeing plans to increase production in 2011 and 2012
 - State has high export intensity
 - Housing downturn was less severe here than nationally
 - Price decline
 - Foreclosure rates

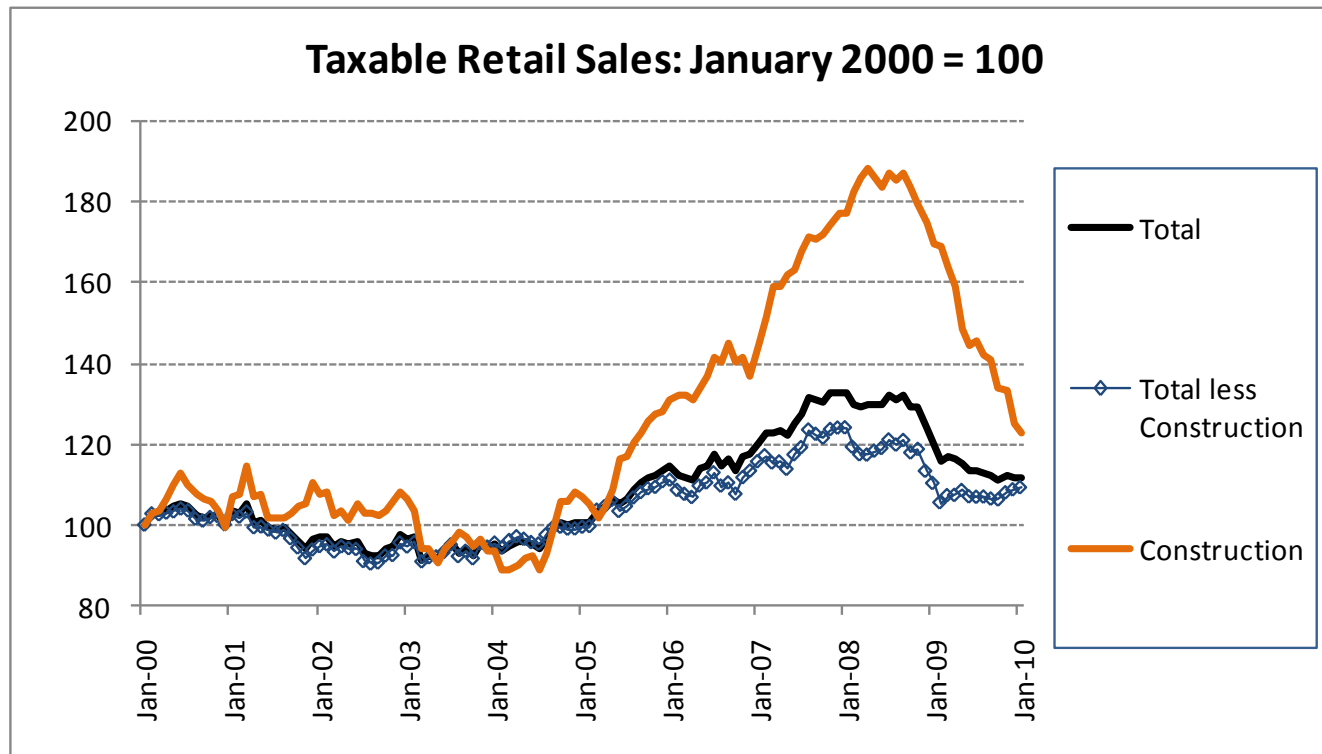
Growth of Real* Puget Sound Region Personal Income During Expansions



*Effect of inflation has been removed. Source: PugetSound Economic Forecaster.

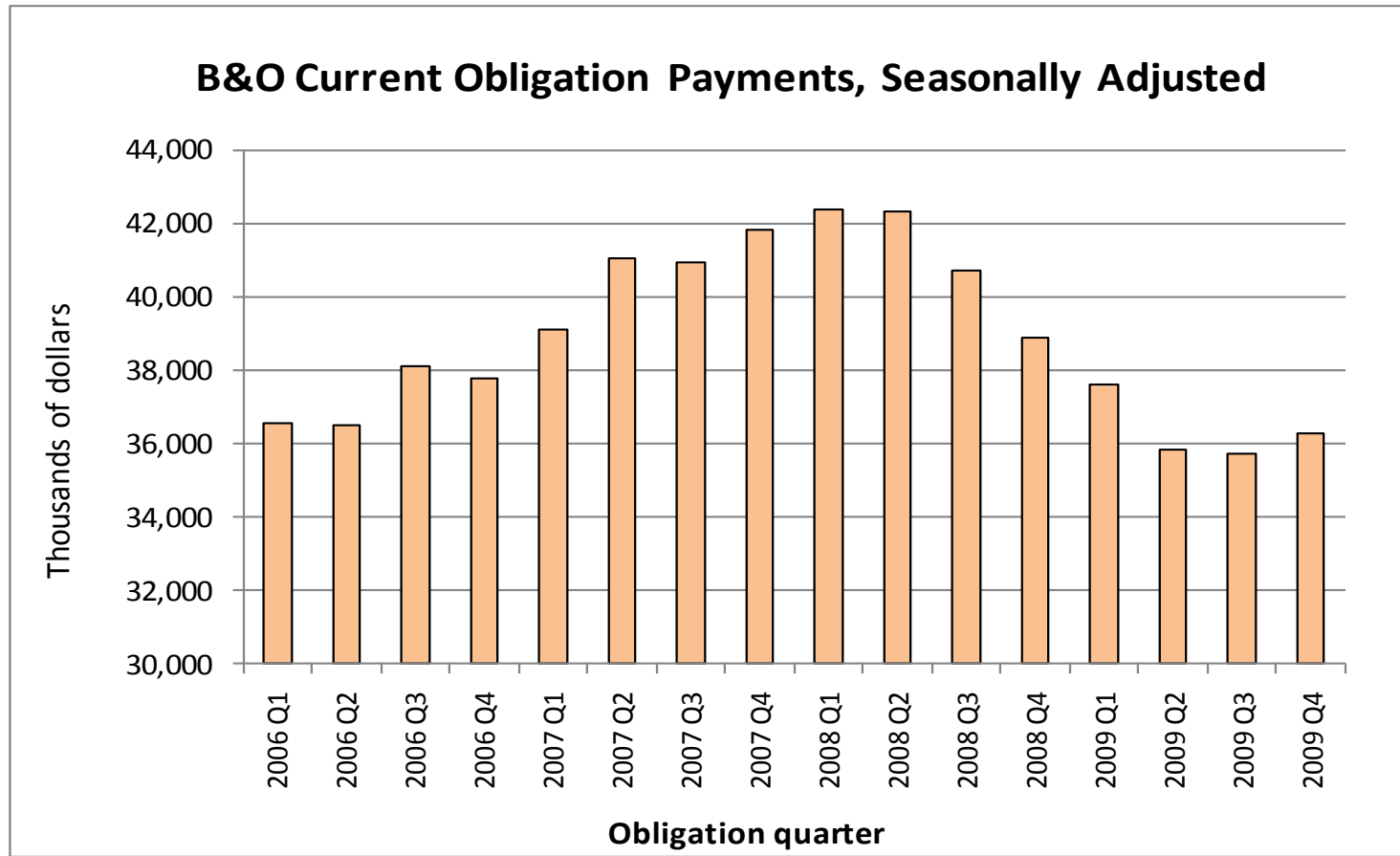
► Retail Sales Tax

- Recent decline in tax base is biggest since at least 1974
 - 18.2% decline from 2008 Q3 to 2009 Q4
 - Real decline was 17.6%
 - 33.3% drop for construction
 - 13.1% drop for rest of base
- Construction has not yet turned around
- Rest of tax base is showing signs of recovery



► B&O Tax

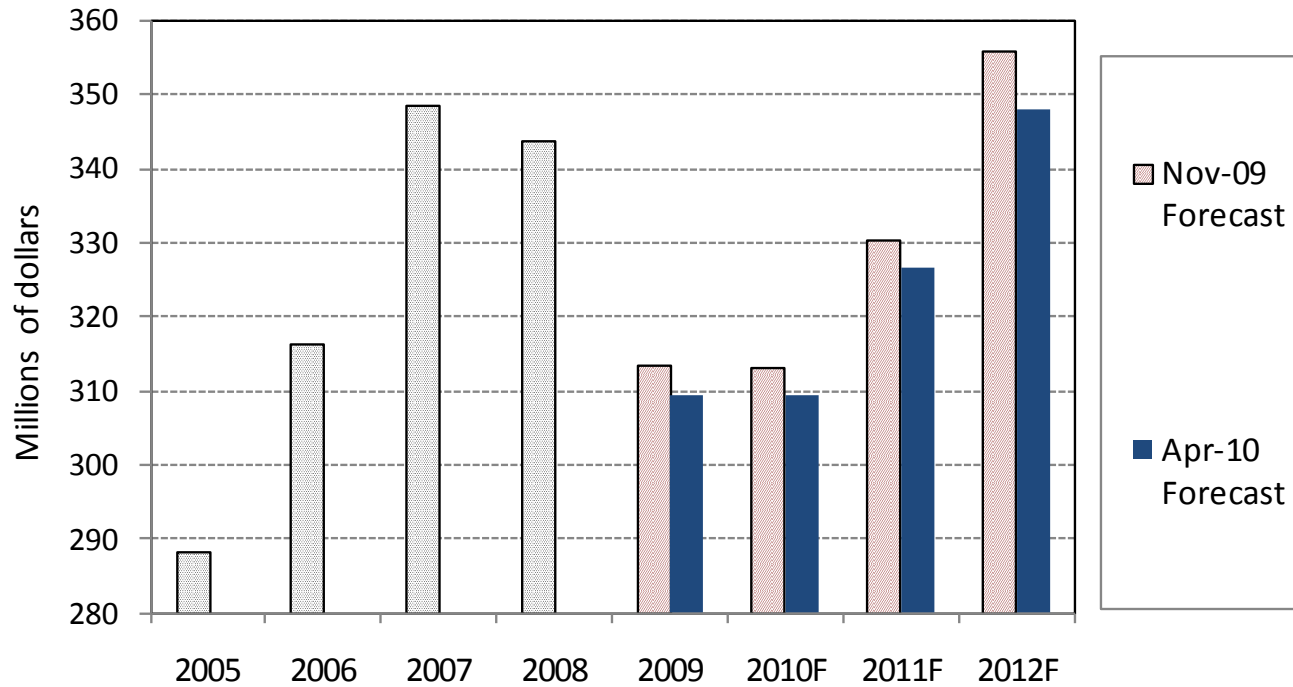
- Peak-to-trough decline in recession was 15.6%



► Retail Sales and B&O Tax Forecasts

- What has changed since the November forecast?
 - For combined sales and B&O tax, we ended 2009:
 - \$3.8 million (1.2%) short of November forecast
 - \$1.6 million (0.5%) above January forecast
 - Economic forecasts have been raised modestly
 - Construction has fallen faster than anticipated
 - Sales tax forecast includes estimate of impact of state tax legislation passed last week
- Construction expected to hit bottom in late 2011 or early 2012

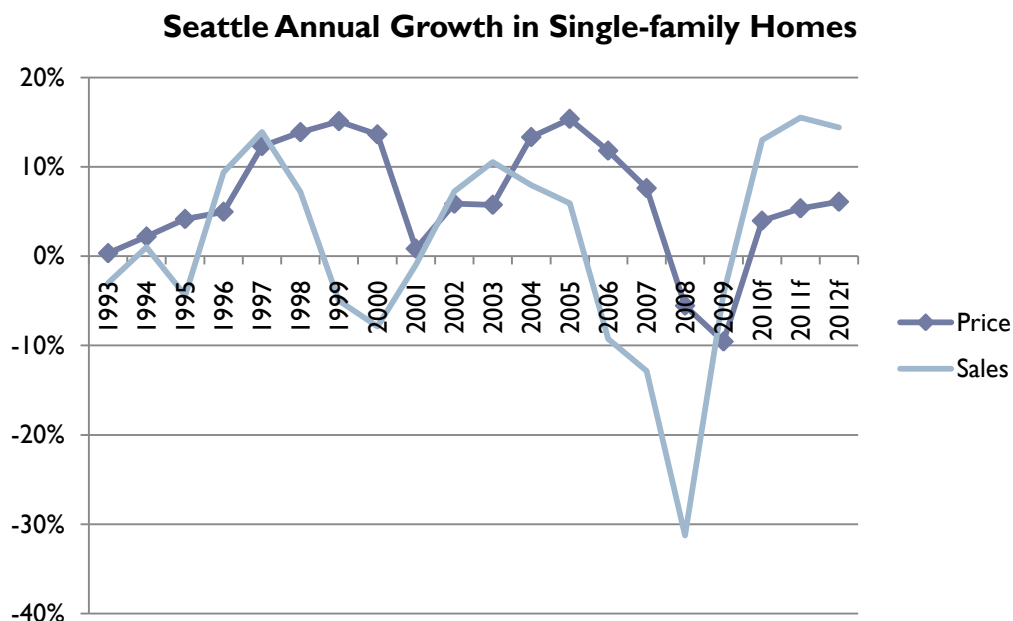
Combined* Sales and B&O Tax Revenue Forecast



*Includes criminal justicesales tax.

► Real Estate Excise Tax (REET)

- Forecast expects modest growth, about 8% a year
- Home sales, which provide about 65% of REET revenues, will improve as will home prices (see chart below)
- Sales of commercial property will be relatively stable
 - Potential for sales volume increase if creditors divest foreclosed properties



► General SubFund (GSF) Revenues

GSF - Item	2009			2010			2011	2012
	Nov	Actuals	Act-Nov	Nov	Apr	Nov-Apr	Apr	Apr
Property Taxes	245,736,000	245,542,839	(193,161)	250,157,000	251,046,000	889,000	253,598,000	258,587,000
Sales Taxes	150,760,339	148,342,481	(2,417,858)	148,452,198	147,820,533	(631,665)	155,514,799	164,435,608
Business & Occupation Tax	162,378,314	160,984,896	(1,393,418)	164,415,196	161,645,935	(2,769,261)	170,977,012	183,528,808
Public Utility Taxes	102,236,428	100,344,650	(1,891,777)	112,072,817	112,016,948	(55,869)	111,116,231	115,917,352
Private Utility Taxes	65,785,115	68,316,568	2,531,453	65,269,135	63,889,534	(1,379,601)	62,313,584	63,565,243
Other Notable GSF Revenues								
Court Fines & Forfeitures (100%)	26,225,556	27,286,196	1,060,640	29,010,778	30,589,000	1,578,222	31,184,000	30,771,000
Parking Meters	25,246,000	25,222,483	(23,517)	28,614,000	28,614,000	-	29,186,000	29,916,000
Subtotal	782,470,751	779,306,613	(3,164,138)	800,809,123	798,285,950	(2,523,173)	817,470,626	851,528,011
Grants	2,517,440	11,481,686	8,964,246	2,741,246	2,741,246	-	443,280	-
Other General Subfund Revenues	88,882,434	88,287,752	(594,681)	89,375,904	89,945,753	569,849	89,240,236	90,318,387
Subtotal	873,870,625	879,076,052	5,205,427	892,926,273	890,972,949	(1,953,324)	907,154,142	941,846,398
Rainy Day Fund Transfer	8,874,000	8,874,000	-	11,254,647	11,254,647	-	-	-
Other Funds - Fund Balance Transfers*	5,038,151	5,161,111	122,960	660,000	807,000	147,000	882,000	882,000
GSF - Grand Total	887,782,776	893,111,164	5,328,387	904,840,920	903,034,596	(1,806,324)	908,036,142	942,728,398
Real Estate Excise Tax	21,089,735	22,761,699	1,671,964	21,579,033	24,920,769	3,341,736	26,914,430	29,067,585
BTG - Commercial Parking Tax	18,827,000	18,734,495	(92,505)	21,840,000	21,840,000	-	22,667,827	23,687,879

*2009 Revised adjusted for changes in accounting for fund balance transfers

► Risks to the Forecast

- Economic forecasts
 - Risk of a double-dip recession or weaker recovery than expected
 - Recovery could be stronger than forecast
- Housing market conditions add uncertainty
- Construction forecast has large margin of error
- County increase in wastewater rates less than current proposal

General Fund Balancing

\$ Millions

	2010 Adopted	2010 Estimate	2011 Estimate	2012 Estimate
Beginning Unreserved Fund Balance	\$1.1	(\$3.8)	\$0.0*	\$0.0*
Revenues	\$893.6	\$891.8	\$908.0	\$942.7
Rainy Day Fund Support	\$11.3	\$11.3		
Subtotal	\$904.8	\$903.0	\$908.0	\$942.7
Expenditures	(\$905.6)	(\$905.6)	(\$964.2)	(\$995.4)
2010 Expenditure Risk		(\$5.3)		
Subtotal	(\$905.6)	(\$910.9)	(\$964.2)	(\$995.4)
Ending Unreserved Fund Balance	\$0.4	(\$11.7)	(\$56.1)	(\$52.6)

* Assumes prior year shortfall is addressed in the prior year

Drivers of the 2010 Shortfall

- ▶ A \$12 million dollar shortfall is projected for 2010
- ▶ 2009 ended with a negative balance of \$4 million, driven largely by weakness in sales and B&O taxes
 - ▶ 2010 adopted budget assumed a 2010 beginning fund balance of over \$1 million
- ▶ Current projections indicate 2010 revenues will be \$2.5 million less than forecast in the 2010 adopted budget
 - ▶ B&O and sales tax estimates: -\$3.4 million from Adopted Budget
- ▶ On the expenditure side, there could be as much as \$5 million in additional potential expenditure pressures
 - ▶ Seattle Center power outage
 - ▶ Increased jail costs
 - ▶ Potential relocation costs of neighborhood service centers with expiring leases
 - ▶ Increased unemployment costs

2011 – 2012 Revenue Highlights

- ▶ Assuming total General Fund revenues for 2011 will grow by \$16 million as compared to 2010, or 2%
 - ▶ Total resources available to support baseline expenditures are growing at an even more modest rate when considering that \$11.3 million in Rainy Day Fund revenues that were used to support 2010 programs are no longer available
 - ▶ When factoring this into the equation, total resources available in 2011 to support the mix of 2010 services is only growing by \$5 million or 0.5%
- ▶ Revenues for 2012 are expected to grow by \$35 million, or 4%, as compared to 2011

2011 – 2012 Expenditure Drivers

- ▶ Most 2010 expenditures were inflated using typical inflation drivers
 - ▶ COLA assumed at 2% for both 2011 and 2012
 - ▶ Medical benefit costs assumed to grow at 7% in both 2011 and 2012
 - ▶ Most other accounts inflated by CPI: 1.8% in 2011 and 1.9% in 2012
- ▶ Retirement contribution rate is assumed to increase to 9.03% in 2011 and 10.03% in 2012, adding \$2.6 million and \$5.2 million in costs in 2011 and 2012 respectively
 - ▶ In addition, contributions to the uniformed pensions expected to increase by \$3 million

2011 – 2012 Expenditure Drivers

- ▶ One-time strategies used to balance the 2010 budget are not assumed to continue
 - ▶ No furloughs are assumed, furloughs saved \$6.6 million in 2010
 - ▶ Rainy Day Fund support of General Fund used in 2009 (\$8.9 million) and 2010 (\$11.3 million) is not assumed for 2011/2012
 - ▶ Only \$10.5 million remains today in the Rainy Day Fund
 - ▶ Parks use of fund balance and temporary closure savings not continued (saved \$2.4 million in 2010)
 - ▶ Use of debt proceeds to pay debt service not assumed (\$3.8 million used in 2010)
 - ▶ One week closure of the library restored: \$650,000
 - ▶ Key Arena settlement funds are exhausted: \$1.4 million
- ▶ In total, 2011 baseline expenditures are up \$53 million, or 6%, as compared with our 2010 estimates
 - ▶ Approximately \$29 million of this is the result of one-time strategies that were used to balance the 2010 budget
 - ▶ 2012 baseline expenditures up by \$31.2 million over 2011, or 3%

Looming Budget Issues

- ▶ Baseline forecasts for 2011 – 2012 generally speaking do not factor in ‘looming’ budget issues
 - ▶ Increased maintenance needs at city facilities (Parks, Libraries, Seattle Center)
 - ▶ Costs for software system upgrades (Summit, MCIS, etc.)
- ▶ These and other ‘looming’ issues will put additional pressures on the General Fund financial outlook for 2011 and beyond
- ▶ The City Budget Office is in the process of compiling this information as part of on-going efforts to improve long-term financial planning and budget forecasting

Looking Ahead – Factors That Could Change Our Fiscal Outlook

- ▶ The City Budget Office is closely monitoring all aspects of the budget

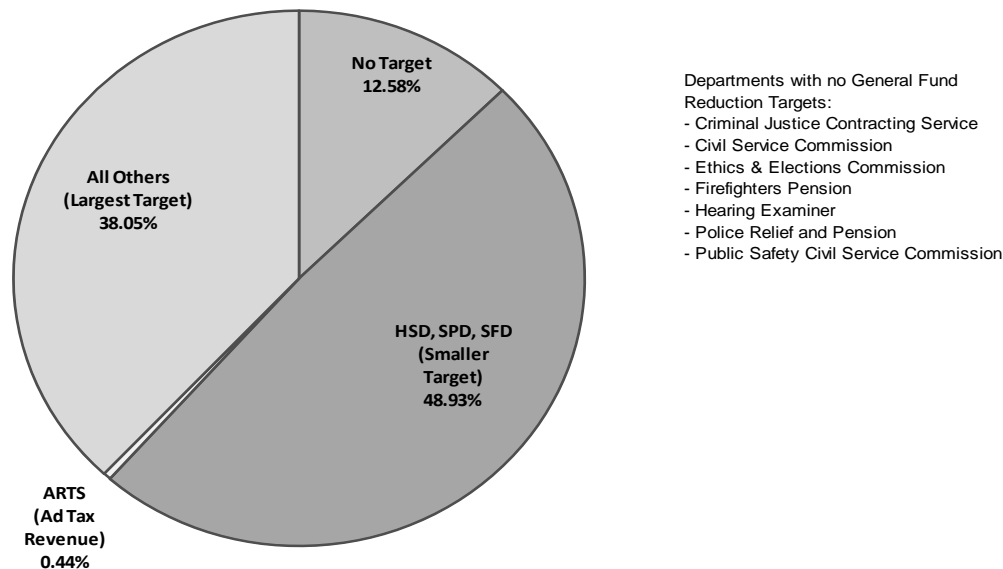
- ▶ Forecasted fiscal outlook could be adjusted as a result of a number of factors
 - ▶ Mid-year reductions
 - ▶ Ability to control supplemental expenditure requests
 - ▶ Additional underspend beyond mid-year reductions
 - ▶ Changes in revenues – particularly sales tax and B&O tax
 - ▶ Inflation
 - ▶ Looming budget issues

Next Steps

- ▶ Mid-year reductions – Departments are currently developing mid-year reduction scenarios. We expect decisions on mid-year reductions in early June.
- ▶ 2011 – 2012 budget instructions provided to departments on April 27
- ▶ Joint Council-Mayor budget outreach sessions are scheduled for April 28 and May 4
- ▶ Department budget requests due to the City Budget Office on July 12
- ▶ Mayor submits his proposed biennial budget on September 27

Reduction Allocations

- ▶ Mayor is in the process of determining how to allocate 2011 reduction targets
- ▶ Typically, reductions allocated to preserve funding for police, fire and human services, meaning larger reductions for other functions in City government



Other Funds

- ▶ City's General Fund is not the only fund facing financial challenges
 - ▶ Department of Planning & Development
 - ▶ Seattle Department of Transportations
 - ▶ Seattle City Light
 - ▶ Seattle Public Utilities
- ▶ City Budget Office is working closely with these departments to monitor and develop options for addressing these financial challenges, as well

General Government Capital Outlook

- ▶ General Government Capital Program is supported by Real Estate Excise Tax (REET) revenues, which are significantly depressed from prior years
 - ▶ 2010 REET revenue down 68% from peak in 2007
 - ▶ REET revenues projected to be at 2002-2003 levels
- ▶ 2010 beginning fund balances better than expected by \$2.0 million across both REET-I and REET-II funds
- ▶ Across both funds, 2010 revenue estimated to be \$3.3 million better than assumed in the adopted budget
- ▶ However planned REET-backed spending outpaces REET revenues in 2011 by \$8.7 million, or 32%
 - ▶ Does not include items included in CIP with a funding source of 'TBD' – this list totals \$67.6 million

General Government Capital Outlook

REET-I:

- ▶ Majority – or 56% – of currently planned expenditures will be dedicated for debt service and is fixed over 2011-2012
- ▶ Current projections indicate a shortfall of \$1.4 million in 2011 and an additional \$1.7 million in 2012 given currently planned spending
- ▶ Additional pressure from unfunded needs of the fire levy in 2011 and 2012 will increase this shortfall

REET-I (\$ Millions)	2010 Adopted	2010 Estimate	2011 Estimate	2012 Estimate
Beginning Unreserved Fund Balance	\$2.7	\$4.3	\$3.4	\$0.0*
Revenue Total	\$10.8	\$12.5	\$13.5	\$14.5
Debt Service	(\$8.7)	(\$8.8)	(\$10.3)	(\$9.0)
Capital Projects	(\$4.6)	(\$4.6)	(\$7.9)	(\$7.2)
Expenditure Total	(\$13.3)	(\$13.3)	(\$18.2)	(\$16.3)
Unreserved Ending Fund Balance	\$0.3	\$3.4	(\$1.4)	(\$1.7)

* Assumes prior year shortfall is addressed in the prior year

General Government Capital Outlook

REET-II

- ▶ Used to support Parks (not acquisition) and Transportation capital expenditures
- ▶ The projected 2011 shortfall is \$1.7 million and \$0.2 million in 2012 given currently planned spending for REET-II
- ▶ Less planned debt service – 25% of total planned expenditures – than REET-I
- ▶ Nonetheless planned expenditures exceed revenues by nearly \$4 million, or 30% of planned capital expenditures excluding debt service

REET-II (\$ Millions)	2010 Adopted	2010 Estimate	2011 Estimate	2012 Estimate
Beginning Unreserved Fund Balance	\$3.8	\$4.3	\$2.1	\$0.0*
Revenue Total	\$10.8	\$12.5	\$13.5	\$14.5
Debt Service	(\$2.4)	(\$2.4)	(\$4.4)	(\$3.5)
Capital Projects	(\$12.2)	(\$12.2)	(\$12.9)	(\$11.3)
Expenditure Total	(\$14.6)	(\$14.6)	(\$17.3)	(\$14.7)
Unreserved Ending Fund Balance	\$0.0	\$2.1	(\$1.7)	(\$0.2)

* Assumes prior year shortfall is addressed in the prior year

Guiding Budget Principles

- ▶ One-time strategies previously used to temporarily address the budget shortfalls are largely exhausted
 - ▶ These strategies simply push the problem out to future years
 - ▶ Fund balances reduced or exhausted
 - ▶ Deferred expenditures cannot be deferred indefinitely
- ▶ In order to put the City budget on stable financial footing for 2012 and beyond, emphasis will be placed on sustainable reductions
- ▶ It is also critical that we begin addressing and developing plans to meet our long-term financial obligations including 'looming' budget issues
- ▶ Difficult operating and capital budget decisions lie ahead, but will put the City on a more sustainable path

Questions?
